

Grey District Council

Carbon Management

Policy

First adopted	15 August 2022	Review period	Three yearly
Last reviewed	15 August 2022	Previous review date/s	Nil
Next review due	August 2025	Approved by	Council
Minute reference		Policy owner	CEO

1.0 Purpose

The Carbon policy outlines the management of carbon risk and management of obligations under the New Zealand Emissions Trading Scheme (NZ ETS).

2.0 Background

The purpose of this document is to establish a framework and policy guidelines within which Grey District Council (“GDC”) will manage its obligation to report greenhouse gas emissions and surrender New Zealand Units (“NZUs”) under the NZ ETS.

- To ensure the obligations to surrender NZUs from the Landfill are managed in line with the requirements of the NZ ETS.
- To ensure that GDC’s NZUs carbon surrender risk management process reflects the annual obligation to surrender NZUs as calculated by GDC’s Waste Minimisation Manager (“WMM”).
- To ensure a conservative approach is adopted to fulfil GDC’s greenhouse gas obligations by a considered risk management approach that is not in any way speculative.
- To ensure GDC adopts a risk-averse and a non-speculative approach to greenhouse gas risk management.

2.1 Legislation / Framework

Outline relevant legislation and agreements applicable to this policy document

- New Zealand Emissions Trading Scheme
- Climate Change Response Act 2002 (CCR Act)
- Climate Change Response (Zero Carbon) Amendment Act 2019

3.0 Key Definitions

NZU – New Zealand Unit that can be traded.

4.0 Policy

4.1 Identification of Risk

Council has assessed that volatility in carbon prices present a material risk to Council, landfill users, and rate payers. Significant movements in the price of carbon units that cannot be effectively met by landfill users will need to be absorbed or passed on to GDC's rate payer base. Accordingly, GDC actively manages the carbon price risk within the following framework to provide cost certainty and reduce the risk that volatility in carbon prices is passed on to rate payers.

GDC is a registered Participant on the New Zealand's Emission Trading Register ("ETR"). The registration is under Schedule 3, Sector-Waste, Activity-Part 6, Operating a disposal facility, and therefore it must submit an online Carbon Emissions return annually between January and December (this must be submitted by 31 March each year for the previous calendar period).

Obligations must be settled with the Crown on or before 31 May following the end of each calendar year.

GDC's account number is NZ8827 and the account type is a Holding Account.

Senior management of GDC, specifically the WMM, have the responsibility of calculating the annual greenhouse gas emissions from the Landfill, based on the default emissions factor calculation. It is the responsibility of the WMM to ensure measurement procedures are up to date and measurement frequency is sufficient to provide GDC with accurate actual and forecast exposures for risk management purposes. To provide some context, historical exposures have from 2016 to 2021 averaged 5,783 tonnes per annum.

4.2 Management Structure and Responsibilities

Council

- Approve the Carbon Policy.

Risk and Assurance Committee

- Receive reports on compliance with the requirements of the NZ ETS twice a year

Executive Leadership Team (Chief Executive, GM Strategy Policy and Corporate Support, Finance Manager, GM Operations, GM Customer and Community Services)

- Approve strategies for carbon emissions surrender obligations risk management as proposed by GM Strategy Policy and Corporate Support.
- Review quarterly reports on carbon activities from the Finance Manager.

Chief Executive (CE)

- Authorised to approve purchase of NZ ETS approved carbon credits, within financial delegations.
- Authorised to execute carbon emissions unit transactions with authorised counterparties, within financial delegations.
- The CE is GDC's secondary representative on the ETR and is authorised to operate the Holding Account on the ETR as an approver.

Group Manager Strategy Policy and Corporate Support

- The GM Strategy Policy and Corporate Support is GDC's primary representative on the ETR. As primary representative the GM Strategy Policy and Corporate Support is authorised to operate the Holding Account on the ETR as an approver.
- Propose any amendments to the Carbon Policy for approval by Council.
- Provide oversight and monitoring of the Finance Manager in relation to the Finance Managers duties below.
- Authorised to execute carbon emissions unit transactions with authorised counterparties, within financial delegations.

Finance Manager

- Registered on Council's Holding Account of the ETR, as a preparer.
- Propose short, medium and long term strategies for carbon emissions surrender obligations risk management to the Executive Leadership Team.
- Review the emissions return prepared by the WMM for submission each year by 31 March. Certify as correct with GM Strategy Policy and Corporate Support.
- Ensure that the correct number of NZUs are surrendered by 31 May each year based on the emissions return filed by 31 March each year.
- Prepare a semi-annual Carbon Compliance Report for the Risk and Assurance Committee.
- Prepare a quarterly report on carbon activities for the Executive Leadership Team.
- Report any non-compliance in relation to either the Carbon Policy or to the NZ ETS and the implications of this non-compliance.
- Authorised to execute carbon emissions unit transactions with authorised counterparties, within financial delegations.

Management Accountant

- Supporting the Finance Manager in carrying out the Finance Managers duties above.
- Registered on Council's Holding Account of the ETR as a preparer.

Waste Minimisation Manager (WMM)

- WMM is responsible for monitoring forecast levels of emissions over a 5-year horizon in relation to Council's landfill activities.
- WMM is to advise the Finance Manager should forecast emission levels increase or decline over a forecast 5-year horizon.
- Prepare and File Annual Emissions Return with the Environmental Protection Authority (via the New Zealand Emissions Trading Register by 31 March each year. Seek review by the Finance Manager prior to filing.

4.3 Carbon Risk Management Parameters

The following risk management parameters only apply to the surrender obligations due to the greenhouse gas emissions from the Landfill. These calculations are made on a gross basis only.

Purchasing NZUs ahead of an obligation surrender date for each year can be achieved by either buying NZUs at spot and then placing in GDC’s Holding Account or transacting NZUs for forward delivery into GDC’s Holding Account in the future. Forward delivery NZU pricing is a function of the cost of carry (financing cost) over a spot price for delivery (spot delivery is within 3 days). GDC’s policy is to transact NZUs in the most financially efficient method based on comparing its cost of funds to the forward price quoted by an authorised counterparty.

The following table details the percentage of NZU’s to be held against forecast surrender obligations over the current budget period (each 12-month period commencing 1 January and ending on 31 December):

Beyond the current and next calendar years, GDC’s NZU holdings are also managed as follows:

Obligation Period	Compliance requirements as at (month of current calendar year)	Minimum hedging as a percentage of annual gross obligations
Current calendar Year	30 June	75%
	31 December	100%
Next calendar year	31 December	50%
Calendar years	Minimum NZU Holding	Maximum NZU Holding
Years 3 to 5	10%	50%

NZU purchases for Council’s projected liability beyond 5 years must be approved by Council before being transacted.

GDC’s CE, GM Strategy Policy and Corporate Support and Finance Manager each have the authority to approve purchasing NZUs to comply with the policy parameters detailed above, where within their respective financial delegations. The GM Strategy Policy and Corporate Support is authorised to seek independent NZU risk management advice.

In developing strategies to manage obligations under the NZ ETS the GM Strategy Policy and Corporate Support is expected to take into account the following:

- Council approved types of unit.
- On-going amendments to the NZ ETS and the potential for regulatory change.
- To ensure that compliance at the obligation surrender date is achieved.
- The prevailing spot NZU price and cost of funding purchases.
- The availability of an alternative mechanism for settling obligations with the Crown which will enable price certainty.

4.4 Authorised Instruments and Counterparties

Key objectives of GDC's Carbon Policy are to be conservative and risk averse, therefore, GDC's policy adopts a conservative approach to the type of carbon unit it is authorised to transact to achieve its surrender obligations. Given the uncertainty as to how the NZ ETS will develop in regard to the type of carbon unit(s) that will be allowed to be surrendered, Council officers are only authorised to transact units allowable under the NZ ETS.

The Chief Executive can authorise purchase of approved international units where these units are specifically allowed by the Crown to be surrendered under the NZ ETS. These units are not to be held for a period beyond 2 years. If purchased, these units are to be transacted and reported on a consistent basis with the NZU's listed in this policy.

GDC will assess the most efficient method to purchase NZUs as counterparties are able to provide long term pricing of NZUs, or GDC could purchase on the spot market and finance the holding cost over a long-term period. A key decision as to the preferred option would be the respective 'funding cost' of GDC compared to the yield curve utilised by the authorised counterparty to calculate the forward price of NZUs:

- GDC can transact spot NZUs.
- GDC can transact forward contracts on NZUs.
- GDC may utilise other mechanisms to settle obligations that are permitted under the NZ ETS.

GDC's exposure to counterparty credit risk will be managed by entering into NZU transactions, spot or forward, with only approved counterparties. Approved counterparties are defined as follows:

- An approved counterparty must be a New Zealand Registered Bank with a long term credit rating of A+ or above by Standard & Poor's ("S&P"), or the Moody's Investor Services or Fitch Ratings equivalents.

- For spot transactions (that will not cause counterparty credit risk) GDC may make use of the services of a registered exchange platform to obtain NZU's on the open market.
- New Zealand Government

4.5 Operations and Procedures

Arranging and agreeing transactions with external counterparties are required to occur in a framework of control and accuracy. It is vital to the internal control of GDC that all NZU transactions are captured, recorded, reconciled and reported in a timely fashion within a process that has the necessary checks and balances, so that unintentional errors and/or fraud are identified early and clearly.

Transaction Origination NZUs

The following authorities shall apply in respect of the execution of NZU transactions with bank dealers at authorised counterparties on behalf of GDC that can commit GDC to all the related contractual obligations under these transactions.

- Transacting NZUs spot or forward, with an approved bank counterparty entails the CE, GM Strategy Policy and Corporate Support or Finance Manager, where authorised to undertake these activities, verbally or by email agreeing with the bank or other approved dealer the number, value date and price accepted.
- Once the deal is agreed details of the transaction shall be entered on the relevant internal system.
- Once the bank or other approved dealer confirmation of the transaction is received the details should then be checked to ensure that the bank confirmation is in accordance with the details on the internal system.

Any discrepancies in the above procedures should be immediately communicated to the bank or other approved dealer so that the correct details of the deal can be agreed on. Where the GM Strategy Policy and Corporate Support or the Finance Manager has transacted the deal in the first place the deal shall be ratified and signed off by a separate bank signatory for Council. In this way there is a clear division of responsibility and a self-checking system.

Direct contracts with other holders of NZUs may be considered, and will be permitted, but only where the credit risk is able to be reduced to negligible levels, such as through escrow arrangements.

Settlement Procedures

All NZU transactions are to be confirmed and reconciled to external confirmations before settlement.

All NZUs must be delivered into GDC's account held on the ETR.

4.6 Reporting

The following reports will be prepared by the Finance Manager and authorised by the GM Strategy Policy and Corporate Support and will include the following:

Semi Annual Risk and Assurance Committee Report

- Forecast greenhouse gas emissions for next 5 years and percentage of NZUs held against forecast obligation.
- Commentary on strategy to achieve compliance with NZ ETS.

Quarterly Executive Leadership Team

- Current level of NZUs held on the ETR against forecast surrender obligations for the next 5 years, to include forward carbon purchases.
- Quarterly reconciliation between the Holding Account (ETR) and internal records detailing NZU's held and contract for receipt under forward agreements (reconciling items) and how these will meet surrender obligations set out within this policy.
- Quarterly transaction report.
- Statement of carbon policy compliance, to include any breaches of policy.